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**Electronic Entertainment  
Access Systems**

**Preliminary Business/Financial  
Case Summary and Funding Proposal**

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**CONFIDENTIAL**

## Table of Contents

- I. Executive Overview
- II. Opportunity Overview
  - A. Introduction and Background
  - B. General Product Description
  - C. Market Overview
  - D. Opportunity Quantification
  - E. Value Propositions
- III. Marketing Strategy
  - A. Product
  - B. Potential (First) Clients
- IV. Competition
  - A. Current Environment
  - B. Potential Competitors
- V. Potential Barriers To Market Entry
- VI. Financial Models and Assumptions
  - A. Financial Models
  - B. Market Penetration Projections
  - C. Revenue Assumptions
  - D. Expense Assumptions
- VI. Next Steps

# Electronic Entertainment Access Systems

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### I. Executive Overview

This business model is about *revolutionizing* the admission ticketing process for entertainment venues as we and they know it today – *forever*. The product central to this model centers on bringing together existing technology in a consumer/company-friendly environment to provide unparalleled customer convenience, to promote incremental ticket sales, and to reduce the overhead associated with “front window” admission services at entertainment venues. Simply put, this internet-based product allows consumers to select, order and locally print entertainment event admission tickets from their own PC – *anywhere* and *at anytime*.

These tickets now become electronic tickets or “*e.tickets*”.

For consumers, this business model is about creating additional convenience, value and options over what is available to them today. The *e.ticket* product will allow them via the *e.ticket* Web site to select their desired event, time and location, order and purchase their ticket(s), select their seating, and immediately print their ticket(s) off at their PC. No commuting to the venue, no long lines to stand in, no long or complicated phone calls to order tickets, no arriving at sold out events. Instead, immediate response and gratification – and, for less costs.

*e.ticket* in hand, the patron can arrive at the entertainment venue and proceed directly to the point of admission. Here, the merchant scans the system assigned sequence number that appears in a bar code format on the face of their PC printed *e.ticket*. Admission is *immediately* permitted – no lines, no waiting. Once entry is granted, the *e.ticket* system updates the “admission record” so that duplicate entry (ticket fraud) is not allowed.

For the entertainment venues, this business model is about reducing the overhead associated with their “front window” and back office ticket sales operations, promoting incremental ticket sales and superior customer service, and increasing their non-traditional revenue stream (for advertising partners).

Beyond the above initial product offering, additional enhancements could include the integrated use of stored value cards, electronic calendaring interfaces, event and celebrity updates and event reviews and eventually the use of 3G personal communications devices to house and transfer *e.tickets*.

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The full opportunity for this model actually exists in any business that issues tickets. However, the focus of this model is centered on the U.S. entertainment industry – i.e. cinema's, theaters, concerts, sporting events, theme parks, etc. Further, in order to maximize the opportunity for an early return on investment and to avoid some potential barriers of market entry (see "Competition-Potential Barriers To Market Entry"), the initial product offering is geared to cinemas and movie theaters. Today there are well over 31,000 total [movie] screens throughout the United States. Ticket sales for this sector of the industry alone are approaching \$7 billion per year. With the average [movie] ticket costing \$7.50, this represents some 933 million transactions per year.

And, much of this business represents "repeat business". Moreover, according to a 1997 Visa U.S.A. survey, the majority of consumers (46.5%) go to the movies one-to-two times per month, while nearly one-fifth (18.3%) go one-to-two times per week. Therefore, the opportunity for early success is also increased because learning and use of the capability will apply to a smaller population.

In a larger context, the popularity of "online ticket sales" is growing rapidly. According to The Yankee Group, consumers bought some \$360 million worth of tickets online in 1998 (includes all domestic U.S. entertainment venues). This number is expected to grow to \$5.3 billion by 2003.

Although some regional and the larger national venues and ticketing agencies have made strides to provide more ticketing options to consumers, there are opportunities for additional convenience, value and cost savings for both the consumer and entertainment venue.

The marketing strategy for consumers will include both traditional and emerging market methodologies and media. Emphasis will be placed on the problems and inconveniences patrons encounter today and how the product would alleviate them. Additional consumer campaigns will focus on the specific benefits for businesses.

For the entertainment venue, the marketing approach will consist of direct calls and industry related print media. The focus will be on the several value propositions for merchants all revenue and expense control benefits of the model for them.

Initial marketing campaigns will focus on venues who oriented toward implementing technology to boost profits and control expenses. Both national and regional venues will be included in the initial contact campaigns. Some of these merchants include Regal Cinemas, AMC theaters, Loews Cineplex Entertainment Corporation and General Cinema Theaters.

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In the most likely financial case, revenues from the first full year of operation following a pilot operation are expected to be \$8,546,988.00. This only assumes an 8% penetration of all movie and cinema venues spread over 212 locations. In year 6 (2005), pre-tax annual revenues are expected to grow to \$63,337,961.00 with total expenses approaching \$25,232,169.00. Given all revenue and expense projections and assumptions, the model will break-even during the third full year of operation which is expected to yield \$2,594,728.00 in pre-tax, after expense profit.

Some potential barriers to market entry include contractual agreements that exist between the venues and their current service providers. These may exclude our participation in their ticket sales process. Other potential barriers include the willingness of venues and admission management software providers to allow the integration of the *e.ticket* capability with their systems and operation. These barriers may be mitigated by the proposed "payments to strategic partners" program herein and the significant advantages introduced by the product for the merchant.

Next steps include obtaining the seed capital required to validate the *e.ticket* concept. This basically includes recruiting and hiring/engaging the staff necessary to create a prototype product, evaluating and selecting the required technology partners, and locating and installing a pilot operation. Additional steps are outlined in the "Next Steps" section of this business case.

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## II. Opportunity Overview

### A. Introduction and Background

This business model is about *revolutionizing* the admission ticketing process for entertainment venues as we and they know it today – *forever*. The product central to the model combines the compelling power of electronic commerce and the emerging capabilities of the internet to bring entertainment selection, ticket sales and printing, seat selection and much more into the homes of everyday families (and businesses). But first, a little background.

The entertainment industry sector of our economy continues to expand at an unprecedented rate as discretionary income rises and as the industry itself expands, diversifies and appeals to a broader portion of our population. Outside of restaurants, more families spend their discretionary income on entertainment than any other industry or commodity. As one testimony, the movie theater industry alone experienced a 12% increase in attendance this past summer (1999) with no real "blockbusters" on the billboard.

Gaining admission to entertainment events appears to become more challenging each day. Long lines form in advance of events as patrons scurry to obtain their admission tickets. In many cases, an early arrival is a must to secure an "on time" admission and avoid the possibility of a "sold out" event.

As consumers complained and in an attempt to solve these problems, many venues began offering patrons the ability to call in advance of the event and order their tickets. However, unless the tickets were mailed to the customer, they were still required to visit the venue (or its ticketing agent) prior to the event to secure their actual ticket. In most cases, the patron was then required to prove their identity and/or present the credit or debit card that was used to purchase their tickets over the phone in order to claim their ticket. Again, the line was not avoided and the customer was inconvenienced.

As important, unless third party services like TicketMaster Online, Tickets.com, or MetroTix or other in-house automated ticketing devices are used by the consumer or business, the purchase of tickets are limited to the hours staffed by the individual entertainment venue. Unless mailed, their retrieval is limited to the venues box office or in-house automated ticket device, if one exists.

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From the entertainment venues perspective, the facilities and other overhead costs associated with staffing "front window" admission services or box offices are increasing as entertainment companies staff up to meet late arrival public demand and long lines for major events. As certain entertainment sectors expand their businesses and services offered, the need for *quick, efficient service* becomes even more apparent.

And, as competition between entertainment sectors for the same consumer discretionary dollar increases, consumer convenience and options become important and basic methods for building and retaining customer loyalty. Long lines, lengthy transaction times and "sold out" events begin to become a factor in ones' decision to attend the event and, in some cases, even a deterrent.

The success of businesses like TicketMaster Online, Tickets.com and others are a real testament that the consumer is even willing to pay a premium (sometimes as much as 30-35% of the face value of the ticket) to secure a ticket. They also avoid the inconveniences posed by pre-event lines, transaction times and the possibility of arriving at a sold out event.

### B. General Product Description

This product involves the creation of a revolutionary, value-added approach to ticketing and admission validation in the entertainment industry. It is not meant to wholly replace the venues current ticketing process but, instead, coexist and supplement the merchants' current process.

#### *Initial Product Offering*

The products' design centers on bringing together existing technology in a consumer/company-friendly environment to provide unparalleled customer convenience, to promote incremental ticket sales, and to reduce the overhead associated with "front window" admission services. Simply put, this internet-based product allows consumers via a Web site to select, order and locally print entertainment event admission tickets from their own PC – *anywhere* and *at anytime*. These tickets now become electronic tickets or "*e.tickets*".

When viewed and printed from the consumers PC, each *e.ticket* contains in a simple event description, the venues name and location, the event day and time, and, if applicable, the seat selected or assigned.

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To facilitate entry validation, a "bar code" also appears on the face of the ticket that represents a number assigned by the system at the time the ticket(s) is ordered and that is unique to that *e.ticket* purchase. This systemically assigned number may be a scrambled number related to the credit or debit card used by the consumer in the purchase transaction or another number compatible with the merchants currently installed in-house automated ticket admission management system.

This unique, system assigned number that appears in a "bar code" format on the face of the ticket(s) is then scanned at the point of admission, verified by the system online and in real time, and entry is immediately permitted. Once entry is granted, the system updates the "admission record" so that duplicate entry (ticket fraud) is not allowed.

If desired, season or recurring ticket passes may be alternatively issued using a plastic card. Looking much like hotel room "keys" today, these plastic card "tickets" may be mailed to the consumer from a central site and retained by the consumer for recurring use. Like the PC based *e.ticket*, they contain an encrypted "bar code" printed on the face of the card, which is scanned at the point of admission. Again, once entry is gained, the admission record is updated for the event and that season pass to not allow duplicate entry.

The "circle of processing" and *e.ticket* control is accomplished through connecting each participating merchants admission control system (e.g. the ICON company's "FilmStar" system) to the *e.ticket* internet session. The *e.ticket* WEB site provides the consumer access to the merchant's entertainment event menu and available admission data. Once connected, the consumer may browse through the events available and all data relevant to completing their purchase.

Alternatively, if the entertainment venue already has a developed Web site with all available admission data, the consumer may link to the *e.ticket* system to order and purchase their ticket(s) once a buy decision is made.

Because the connection with the merchant's "WEB event/admission site" and system is real time from the consumers PC, the merchant may also integrate their existing or begin to offer an advance seat selection capability. This seat selection capability may be consumer driven [at the time of purchase] or systemically driven where the *e.ticket* system selects the best seat available.

Whether a PC printed *e.ticket* or a plastic card ticket, the initial product offering allows for either to be ordered by the consumer (or business) online and forwarded [as a gift] to the intended receiver. In these cases, a small section of the "ticket" could be reserved to identify the giver (e.g. "Compliments of ABC Company" or "Mom").



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Plastic based *e.tickets* ordered "directly" from the merchant by the consumer could alternatively contain merchant desired advertising. This would also represent a major opportunity for the merchant to provide their business partners the ability to advertise on the face of "their" cards.

Additional opportunities for non-traditional revenue [for the entertainment venue and the Company] occur as online advertising banners are sold and/or advertisements accompany the ticket sales fulfillment download. With the latter, the advertisement is printed out when the ticket(s) is printed from the consumers PC.

The *e.ticket* business model can also support the entertainment venues reward and/or [discount] coupon programs. Information pertinent to these programs may appear on the downloaded *e.ticket* or printed separately. With the reward program, the consumer may receive instant knowledge of their progress in the program or even receive rewards online (e.g. free or discounted admission tickets).

In summary, the *initial product offering* for the consumer provides the following:

1. Browse and locate the desired [movie] event in the consumers desired geographic area, learn about and select the most convenient venue location, event time and seating availability online.
2. View reviews and critiques regarding the potential event(s).
3. Order the admission ticket(s) utilizing a "one-click" methodology and the payment vehicle of choice (debit or credit). This includes one time events/movies or season passes to the venue.
4. Download the ticket(s) ordered and print them off at the consumers PC. Season passes [plastic card *e.tickets*] are retrieved at the venue or mailed to the consumer at their option.
5. If so desired, forward a purchased ticket(s) to another party.
6. If offered by the venue, view one's progress in the merchants' reward or other incentive programs previous to and following the current purchase.

For the entertainment venue, the *initial product offers* the following capabilities:

1. Coexists with and supplements the merchants existing ticketing and admission validation process.
2. Allows the purchase of [advance] ticketing to any event without having to man a box office operation.
3. Reduces, if not eliminates the venues need for expensive in-house automated ticketing devices and/or special windows for consumers to retrieve pre-ordered tickets.

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4. Permits the venue to offer a reward or other incentive program and a convenient, non-invasive method for disclosing the consumers' progress in the program.
5. Allows the venue or their business partners to advertise via the ticket download, on the face of the plastic card *e.ticket*, and on the internet based advertising banners.

### *Additional Product Enhancements*

Beyond the above initial product offering, additional enhancements could include the integrated use of stored value cards, electronic calendaring interfaces, event and celebrity updates and event reviews and eventually the use of 3G personal communications devices.

First, as stored value card products (sometimes referred to as smart card "electronic pursing") gain popularity, this product offering will allow consumers to use this media as another tool to "purchase" and gain their admission(s) at the very point of admission entry. Again, the product would be initiated using ones' PC and a module supplied by this product offering. Funds are transferred from the consumers (or business) credit card or checking account (debit card) on to the stored value card. Following the completion of the online "stored value" transaction, the consumer indicates whether they want to have the card mailed to them or picked up at the merchants' location. Once used at the point of entry, the cost of the admission(s) would be deducted from the monetary value remaining on the card. The consumers' admission record for the event would also be updated at that point to prevent duplicate entry.

Second, when consumers sign on to the *e.ticket* WEB site, they will be provided with the opportunity to receive additional value added services. For example, if they maintain an electronic calendar in their PC software suite, it may be downloaded and returned with events suiting the consumer's taste, venues, events and available times.

Additional value added services may include automatically e-mailing the consumer event reviews and critiques, early announcements, discount ticket opportunities, celebrity updates and news, and even event-related merchandise sales. Each of these are viable trailing value added services that will sustain the initial business model well beyond its preliminary stages and, in some cases, will provide additional revenue for *e.tickets* and the venue.

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As technology progresses and becomes available, it will become possible for *e.tickets* to be downloaded and stored on hand held 3G devices (e.g. PalmPilot like devices with on board telecommunications connectivity). In turn, these truly electronic tickets may also be used to gain admission and even electronically transfer *e.tickets* to the 3G device of other parties.

### *Product Protection/Sustainability*

To further protect the sustainability of the model and leverage its use in other business sectors at a later time, the plan is to patent the *e.ticket* process. Although similar [technical] models are possible to create, none are viewed to be as simple and as easy to integrate into existing systems as the *e.ticket* model.

Also, as mentioned above, ongoing product innovation will continue to sustain the model as technology progresses and becomes available and consumers and venues recognize their value.

### C. Market/Opportunity Overview

First, this business model is about creating convenience, value and options for the consumer. *e.tickets* will allow the consumer to order and purchase their tickets, select their seating and to immediately print their ticket(s) off at their PC. No commuting to the venue, no lines to stand in, no long or complicated phone calls to order tickets, and no arriving at sold out events. Instead, immediate response and gratification - and, for less costs.

Second, this model is about reducing costs, creating incremental ticket sales, providing superior customer service and the opportunity to increase the non-traditional revenue stream for the entertainment venue.

Third, similar models exist or are about to be introduced in other businesses today. For example, Alaska Airlines is working toward using an internet-based system that will improve their security and speed up [check in] lines at the airport. Unlike the popular *e.ticket* offered by some airlines for years now, this capability will include the passengers ability to print out their own boarding pass from their own PC. Continental and Northwest airlines are also expected to participate in the system once it becomes available.

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Additional similar models like E.Stamps and Stamps.com are also being introduced. These allow consumers to purchase and download stamps to electronically transfer to outgoing mail from the consumers PC at home or the office.

These [similar] models are a very good indication of where the process if issuing "hard copy" consumer value is going. It also says a great deal about what the roles of technology and the Internet will be in this evolution and the consumers current acceptance and use of these developments.

As such, the *e.ticket* capability has tremendous market potential and immediate growth opportunity. Simply put, this is a *win-win* business model.

### *Initial Product Offering*

The full opportunity for this model actually exists in any business that issues tickets. However, the focus of this model is centered on the U.S. entertainment industry – i.e. cinema's, theaters, concerts, sporting events, theme parks, etc. Further, in order to maximize the opportunity for an early return on investment and to avoid some potential barriers of market entry (see "Competition-Other Potential Deterrents"), the initial product offering is geared to cinemas and movie theaters.

### *Initial Target Market*

Today there are well over 31,000 total [movie] screens throughout the United States. Ticket sales for this sector of the industry alone are approaching \$7 billion per year. With the average [movie] ticket costing \$7.50, this represents some 933 million transactions per year.

And, much of this business represents "repeat business". Moreover, according to a 1997 Visa U.S.A. survey, the majority of consumers (46.5%) go to the movies one-to-two times per month, while nearly one-fifth (18.3%) go one-to-two times per week. Therefore, the opportunity for early success is also increased because learning and use of the capability will apply to a smaller population.

In a larger context, the popularity of "online ticket sales" is growing rapidly. According to The Yankee Group, consumers bought some \$360 million worth of tickets online in 1998 (includes all domestic U.S. entertainment venues). This number is

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expected to grow to \$5.3 billion by 2003. Further, the primary vehicle used by consumers and businesses alike for "online ticket sales" has been credit card transactions, although debit transactions are also beginning to gain popularity.

From a cost perspective, consumers typically pay a \$.75 surcharge for movie theater tickets ordered online or by phone. This amount increases to 30-35% of the face value of the ticket for live performing arts theatrical ticket sales. Given the lower costs associated with internet offerings, there appears to be a good deal of room for cost savings for both the consumer and entertainment venue with the *e.ticket* model (see Opportunity Quantification – Financial Models).

Last, although some regional and the larger national ticketing agency firms have also made strides to provide more ticketing options to consumers, opportunities for further convenience, value and cost savings for both the consumer and venue do exist (see Value Propositions).

### *Secondary Target Market*

As the initial offering gains popularity, acceptance and use, additional markets will be developed. Specifically, live theater and theme parks to include intra-park entertainment events will be targeted.

### D. Opportunity Quantification

Financial case – Likely – See Attached

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### E. Value Propositions – By Party

Fully implemented, the *e.ticket* product would provide several benefits to the consumer as well as the entertainment venue. Some of these include:

### THE CONSUMER

- The consumer may obtain a ticket(s) to an event without ever standing in a line; they merely sign on to the *e.ticket* Web site, select the venue, event, time and seating preference and print off their *e.ticket* on their own printer.
- *e.tickets* may be obtained 24 hours a day, seven days a week; consumers are not limited to a venues box office hours.
- Consumers with *e.tickets* bypass all lines and may proceed to the point of entry/ticket validation.
- *e.tickets* are printed at the consumers' PC; they do not have to be picked up at the venues box office or special window.
- Allows "out of town" consumers/businesses to conveniently and equally participate in the model.
- Offers consumers the ability to pay transactions using either funds transfer (debit card) or credit card, eliminates the need for cash. Future enhancements add stored value card transactions to the payment options.
- *e.tickets* may be easily transferred to another party without having to physically pass or mail the ticket.
- *e.tickets* are more cost effective than other current third party transactions (e.g. tickets by phone or mail).
- If made available by the venue, consumers may view and select reserved seating (real time) in advance; this option is not available with other IVR based phone services.
- The *e.ticket* transaction model easily fits consumers and businesses equally and alike.

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### The Consumer – (continued)

- When used as gifts, the giving party may identify themselves on the face of the ticket (e.g. “Compliments of IBM” or “Mom”).
- If offered by the venue, the consumer or business may view their progress in the venues ticket award system. The progress may be printed on or off the ticket(s) downloaded. Instant rewards may be easily issued at the time of sale.
- Refunds or returns may be handled online without the consumer having to be present at the venue or ticketing agent's office..
- As technology evolves, the consumer may store and retrieve the *e.ticket* on a 3G device and the venue will be able to scan this device to permit admission entry.

### The Entertainment Venue

- Reduces overhead (staff, facilities, equipment, etc.) associated with “front window” or box office operations.
- Further reduces back office or “special window” operations for venues when consumers choose to print off their own tickets (vs. picking them up at a special window at the entertainment location).
- Reduces overhead, cost of materials, supplies and mailing costs associated with typical ticket based MOTO transactions. Shifts some of the ticket printing costs to the consumer.
- Reduces, if not eliminates, the need for the venue to purchase and install expensive in-house ticket dispensing machines for consumers who order their tickets by phone.
- Promotes customer convenience, options and value and will result in incremental sales over venues that do not offer *e.tickets*.

## The Entertainment Venue (continued)

- Reduces the cost of cash through offering alternative forms of payment (debit, credit, and stored value).
- Opportunity to dramatically increase advertising revenue, send advertising banners, merchant discount coupons, etc. in sales fulfillment download to the consumer.
- If offered by the venue, allows the merchant to directly communicate the consumer's progress in the venues' reward program (download at time of sale, print off on or off ticket (e.g. "2 Events of 10 Toward Next Discounted Ticket").
- Portraits/paints a "forward thinking" [use of technology] image for the entertainment venue.
- With the introduction of a stored value (smart) card, the e-ticket model reduces the cost of typical "season ticket" offerings (materials, supplies, mailing, etc.) and improves the merchants cash float position
- Improves the venues competitive advantage, promotes and builds customer loyalty through product innovation geared to customer convenience.
- With the stored value option, the venue may offset costs (achieve profit) through third party advertising on the face of the card



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### III. Marketing Strategy

#### A. Product

This product will require a marketing plan that is focused on the two key participants in the model: consumers (businesses) and entertainment venues.

For consumers, the marketing strategy will include traditional and emerging marketing methodologies. TV, radio, newspaper and venue based advertising campaigns will be built as well as internet based banner ads on key internet sites (e.g. Showtimes.com, business journals and local newspaper Web sites, etc.).

The emphasis will be placed on the problems encountered and inconveniences placed on consumers today and how the product would reduce if not eliminate them – no commuting to the venue, no long lines, no phone calls. Comparisons between those consumers who do and do not use the service will also be included in the campaigns.

Additional marketing campaigns will focus on the specific benefits for business (e.g. gift tickets) and how the *e.ticket* may be transferred electronically to another consumer or business customer(s) from the purchaser/sender.

The campaigns will also serve to quickly educate the consumer on how the service works (from review to selection to order to download/print and redeem) and any additional benefits offered by the venue.

For the entertainment venue, the marketing approach will consist of direct calls and industry related print media. The marketing strategy will focus on the several value propositions mentioned earlier. Chief among them will be educating them on how *e.tickets* can reduce their costs, create incremental ticket sales, provide superior customer service, and provide an opportunity to increase their non-traditional revenue stream.

Statistics gathered from the installation and operation of a prototype model will play an important role in marketing the product to the venues.

The *e.ticket* marketing and sales staff will assume the primary responsibility for marketing to the entertainment venues as well as coordinating with advertising consultants and agencies to create the multi-media consumer/business marketing campaigns.

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### B. Potential (First) Clients

Regal Cinemas – Headquartered out of Knoxville, Tennessee, Regal is the fastest growing and now largest chain of movie theaters in the U.S. In fact, Forbes Magazine has ranked them among the best 200 small companies in America (1999). Today, following their recent merger with ACT III Cinemas, they now operate some 3293 screens in 390 separate locations throughout 29 states.

Now owned by KKR and Hicks Muse, Regal will earn an estimated \$920 million in total revenue during 1999. Their first quarter 1999 revenue was up 39.5% over the first quarter of 1998.

In addition to being technically oriented, Regal Cinemas focus is on “providing the highest standard of customer service” for their patrons.

AMC Theaters – Headquartered in Kansas City, Missouri, AMC operates over 2735 screens in some 233 separate locations. As of April 1, 1999, they hosted some 151 million moviegoers and will likely earn over \$1.026 billion in total revenue in 1999. In addition to their U.S. market, AMC also operates theaters in Canada, Japan, Portugal and Spain.

AMC is also a technically oriented venue and is quite willing to deploy new technologies that benefit their movie patrons and their net revenues. Today, AMC operates a automated IVR phone based ticket ordering system that allows their customers to order and charge tickets by [touch tone] phone and retrieve them later at the theater.

Wehrenberg Theaters – Started by Fred Wehrenberg in 1904, this theater chain is one of the oldest family owned and operated chains in the U.S. Currently, Wehrenberg operates close to 400 screens at locations throughout Missouri, Illinois and Arizona.

Even though Wehrenberg is a smaller operation by comparison, the venue is very eager to grow market share, is technically oriented and could benefit significantly from the *e.ticket* product.

Since Wehrenberg is privately owned, annual revenue and other statistics relative to this business case were unavailable.

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Others – Others to be eventually approached include General Cinema Theaters out of Boston, MA - a \$369 million (1999 estimated annual revenue) picture exhibitor operating throughout the United States, South America and Mexico.

Also, Loews Cineplex Entertainment Corporation headquartered in New York, NY. They operate 2911 screens in over 406 locations throughout the U.S., Canada, and Europe. Their estimated 1999 revenues are \$924 million.

And, Carmike Cinemas, Incorporated of Columbus, GA. They operate in 36 states throughout the U.S. with 466 locations and 2663 screens. Their estimated 1999 annual revenue will approach \$487 million.

### IV. Competition

#### A. (Current) Environment

Over the past few years, the admission-ticketing process has undergone some change as entertainment venues began to recognize the problems and inconveniences that their patrons were experiencing. While some venues attempted to solve their own problems, others engaged ticketing agencies such as Ticketmaster Online to offer alternatives.

The solutions generally offered the consumer a couple of different ways to obtain tickets in advance of the event. At first, the patron was allowed to visit the venue to purchase and obtain their tickets in advance of the event. However, they were still limited to the hours of the venues operation and, in the case of major events, still waited in line.

Later on, consumers were able to call the venue or their ticketing agent to order tickets in advance. In these cases, the consumer paid a premium for the service (today as much as 30-35%) and the tickets were mailed to the patron.

Still later, some venues (particularly movie theaters and cinemas) invested in interactive voice technology (IVR) where the consumer called, ordered and purchased their tickets using a touch-tone telephone. The process was confusing to many and their tickets were either mailed to them or available for retrieval at a special window at the venue at the time of the event. Some IVR-touch-tone phone ordered tickets are now being made available for retrieval through automated ticket dispensing devices installed at the venues' site.

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More recently, some venues and ticketing agencies have extended their event information and advance ticket sales capability to the internet. However, the consumer is still stuck with the same inconveniences as before when it comes to obtaining and claiming their internet purchased tickets.

These solutions to date have only gone a portion of the way toward solving the real problems. Consumers do not want to stand or wait in line, they do not want to make long and difficult [IVR – touch-tone] phone calls, and they do not want to arrive at sold out events. And, if they can pay less for more convenience, better service and options, the happier they will be.

### B. Potential Competitors

There appears to be four different types of potential competitors for this business model. They include:

1. On line entertainment event listing services. Examples include Showtime.com and MovieFone – a \$388 million company recently acquired by America Online.
2. On line ticketing agents. On the national level, the prime contender is TicketMaster Online City Search, Incorporated (a subsidiary of USA Networks). They are a \$120 million company and the leading provider of live event ticketing, local city guides and local advertising. They sell over 75 million tickets a year through approximately 2,900 retail ticket outlets, 25 nationwide telephone call centers and their own internet site.

Another on the national level includes Tickets.com. Following its recent merger with ProTix and Advantix, the company is the second largest U.S. domestic ticketing agent with revenues in excess of \$47 million, relationships with over 40,000 entertainment organizations and ticket sales exceeding 5.3 million tickets in 1998.

There are several others like MetroTix on the regional and local level. However, their ability to respond with the necessary resources are rather limited.

3. Large entertainment venues themselves. Major companies in this category include Regal, AMC and General Cinemas in the movie industry and Disney and Six Flags in the theme park business have available

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4. Independent software companies. These include companies like ICON Software that develop, license and distribute application software to providers of ticketing services and individual entertainment venues/companies.

With the exception of the local and regional companies, the major, national firms listed above all have access to the human and monetary resources necessary to develop or underwrite the development of a capability similar to the *e.ticket* model.

However, the strategy is to develop and offer a product that does not directly compete with any *existing* offering by any one of the firms listed above. Instead, the strategy will also include partnering with as many of these firms as possible.

### V. Potential Barriers to Market Entry

First and probably the largest potential barrier to entering this market is the existing contractual agreement that exist between the venues and the service providers (software license companies, event listing services and ticketing agents). The exact language and breadth of these agreements are not known. However, since this product does not directly compete with any existing, exact product offering, there may be no basis for this potential issue.

Second, on a venue by venue basis, the willingness of any one-entertainment venues' willingness to underwrite the installation and integration of the hardware and software required to allow the *e.ticket* capability to operate within their existing operating environments is uncertain. However, the benefits reaped from the implementation of the *e.ticket* capability may alleviate this concern.

Coupled with this point is the willingness of individual application software companies to integrate this capability with their current admission management system software. However, proposed "payments to strategic partners" should mitigate this potential barrier.

Third, for those merchants without existing proprietary event information Web-sites, there will be a requirement to partner with a credible event listing service such as MovieFone or Showtime.com. These relationships do not currently exist and would need to be arranged. Again, with the proposed "payments to strategic partners", these arrangements should not be difficult to complete.

VII. Financial Models/Assumptions

A. Financial Models – See Attached

B. Penetration Projections

1. Market Penetration Projections (\*):

| Market Penetration (%) | <u>2000</u><br>Pilot | <u>2001</u><br>Year 1 | <u>2002</u><br>Year 2 | <u>2003</u><br>Year 3 | <u>2004</u><br>Year 4 | <u>2005</u><br>Year 5 |
|------------------------|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Best Case              | N/A                  | 12                    | 20                    | 35                    | 45                    | 60                    |
| Likely                 | N/A                  | 8                     | 12                    | 18                    | 26                    | 36                    |
| Worst Case             | N/A                  | 3                     | 6                     | 9                     | 12                    | 15                    |

\* Represents the % of patrons attending the movie theater/cinema segment (initial target market) that order e.tickets.

2. Installation (No. of Locations) Projections (\*\*):

| Installation Projection | <u>2000</u><br>Pilot | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|-------------------------|----------------------|-------------|-------------|-------------|-------------|-------------|
| Best Case               | 10                   | 318         | 529         | 927         | 1192        | 1589        |
| Likely                  | 5                    | 212         | 361         | 474         | 689         | 954         |
| Worst Case              | 3                    | 79          | 158         | 237         | 318         | 395         |

\*\* Penetration % \* Total # Screens (31,000) ./ 11.7 Av. Screens/Location.

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## 3. Summary of Projected Start-Up and Ongoing Financial Costs:

### Start-Up Cost Summary:

|  |           |            |
|--|-----------|------------|
| • Focus Group Studies (5)  | \$ 25,000 |            |
| • <i>e.ticket</i> Web Site Development                             | 130,000   |            |
| • <i>e.ticket</i> Application Software Development (see Personnel) | -----     |            |
| • Prototype UPC Scanning Hrdw. & Sftw. Systems                     | 75,000    | \$ 230,000 |
| • Personnel for Concept Validation/Pilot Operation                 |           |            |
| • 1- CEO   | 270,000   |            |
| • 1- CFO   | 225,000   |            |
| • 1- CTO   | 235,000   |            |
| • 1- COO   | 175,000   |            |
| • Signing Bonuses  | 400,000   |            |
| • 4- Business Analysts   | 320,000   |            |
| • 3- Systems Analysts  | 285,000   |            |
| • 1- Web Master  | 95,000    |            |
| • 8- Progr. Developers   | 1,280,000 |            |
| • 1.5 - Doc. Specialists   | 110,000   |            |
| • 1- LAN/Telecom Spec.   | 100,000   |            |
| • 3- Help Desk Spec.   | 90,000    |            |
| • 2- Clerical  | 70,000    | 3,655,000  |
| • Marketing/Advertising:   |           |            |
| • 1- Sr. Marketing Officer   | 185,000   |            |
| • 2- Mktg. Specialists   | 160,000   |            |
| • Advertising, Media   | 1,200,000 | 1,545,000  |

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|  |           |           |
|--|-----------|-----------|
| • Other Expenses                                       |           |           |
| • Location/Installation Set-Up (5)                     | 100,000   |           |
| • Personnel, Recruiting, etc. (25% of direct staffing) | 593,750   |           |
| • Telecomm (\$1,750/person/yr.) (30)                   | 52,500    |           |
| • Information Processing (\$950/person/yr.)            | 28,000    |           |
| • Travel and Meetings                                  | 950,000   |           |
| • Printing and Publications                            | 35,000    |           |
| • U.S. Patent Related                                  | 35,000    |           |
| • Legal Fees   | 250,000   |           |
| • Facilities (\$1,500/person/month) (30)               | 540,000   | 2,364,750 |
| • Contingency  | 2,000,000 | 2,000,000 |

Total One Time Start-Up Costs (Year 1 - 2000) \$ 9,794,750

## On Going Cost Summary (Beginning Year 2 - 2001):

|  |           |
|--|-----------|
| • Personnel and related                          | 4,355,000 |
| • Additional Marketing/Sales Personnel           | 365,000   |
| • Additional Acct'g Support Personnel            | 90,000    |
| • Advertising                                    | 3,000,000 |
| • Other Internal Expenses (excludes POS Systems) | 1,974,750 |

Total On Going Costs (Annual)\* \$ 9,329,750\*

\* Excludes amortized POS?UPC Equipment/Software costs (see schedule attached)



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### C. Significant Revenue Assumptions

- This business/financial case was constructed based on a U.S. market roll-out of the product.
- Gross (movie theater/cinema) ticket sales are \$ 7 billion per year. This number was projected to increase a conservative 10% a year beginning with Year 2 (2001).
- Average movie ticket is \$ 7.50. This number was projected to increase by 5% per year beginning with Year 3 (2002).
- Market penetration through Year 6 (2005) is 15% worst case, 36% likely, and 60% best case. In the first full year of operation (following the pilot operation), penetration was projected to be a conservative 8% (likely case).
- [Movie theater/cinema] venue penetration was projected (likely case) to be 212 locations (Year 2 –2001) and increase to 954 locations (Year 6 – 2005). This represents less than one-third of all U.S. cinemas/movie theater locations.
- Only 48 % of all U.S. households that have access to the internet today were assumed to use the *e.ticket* service. This number was projected to increase by 10% beginning with Year 3 of the model.
- The charge for an *e.ticket* transaction was projected to be \$.25 or .033% of the cost of the average movie ticket. This is two-thirds less than what is charged to patrons today (average is \$.75) for "order in advance" transactions at movie theaters and cinemas.
- Revenue from advertising partners [to *e.tickets.com*] was projected to be \$500,000 beginning with Year 2 and increase by \$500,000 each year thereafter. This revenue originates from partners whose advertising would accompany the *e.ticket* downloads and/or appear on the face of the plastic *e.ticket* (season ticket and stored value) cards.

### D. Significant Expense Assumptions

- The cost to develop the *e.ticket* application software is reflected in personnel costs (Programming Development; Year 1-Pilot).
- The prototype UPC/POS scanning equipment and software system costs (\$75,000) include the initial development and systems integration costs as well as the initial 5 site pilot installation of these systems. Ongoing costs are projected to be \$18,000 per location (average).
- The UPC/POS scanning equipment and software costs were projected as an amortized amount over a five year period from acquisition. These costs were reflected in expenses as an accumulated cost each year (see "UPC/POS Equip. & Sftw. Expense" under "Total Expenses").

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D. Significant Expense Assumptions - Continued

- All credit and debit card capture and processing costs were assumed to remain a pass-through to the venue.
- Internal operating expenses were projected to grow at a 20% annual rate.
- Payments to strategic partner included admission management software provider companies (e.g. ICON Software) at \$.025 per completed transaction and entertainment event information providers and \$.01 per completed transaction (see "Less Partner Payments").

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#### VIII. Next Steps

Beyond the acceptance of the *e.ticket* business and financial case by a major financial partner(s), the next phase of the project will involve obtaining the seed money necessary to validate the *e.ticket* concept through (A) the creation of a prototype and (B) the execution and evaluation of a pilot operation.

The following steps will be required in the concept validation phase.

1. Obtain the seed money necessary to validate the *e.ticket* concept.
2. Secure the facilities necessary to house the staff required for the concept validation phase.
3. Perform a consumer focus group study (ies) – validate consumer value propositions.
4. Locate and recruit the management team and staff required to execute the concept validation phase.
5. Hold preliminary and confidential discussions with select entertainment venues to validate merchant value propositions.
6. Create the prototype application.
7. Apply for U.S. patent.
8. Identify, evaluate, select and secure agreements with technology partners.
  - Web site & application software
  - Existing admission management application software providers
  - Hardware systems suppliers and distributors
  - Card services suppliers and distributors
  - Card transaction processors
9. Identify and select (credit/debit) card processing acquiring financial institution
10. Identify, select and secure agreement with pilot venue
11. Solicit and secure agreements with advertising partners.
  - *E.tickets.com* advertising
  - For the *e.ticket* patron downloads
  - For the face of *e.ticket* plastic cards (season ticket and stored value)
12. Create a system of measurement for the pilot operation
13. Execute and evaluate a pilot operation.